

FDIC State Profile

Spring 2006

Rhode Island

The construction industry and some service sectors led Rhode Island employment growth in 2005.

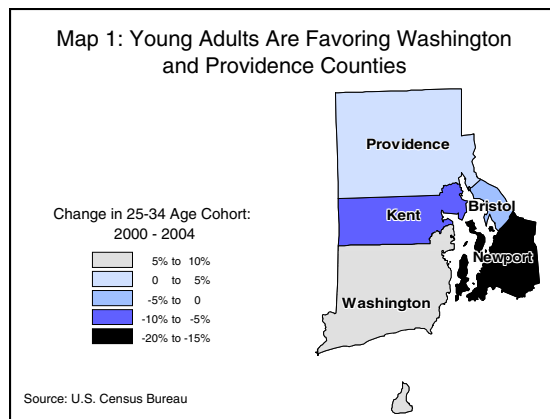
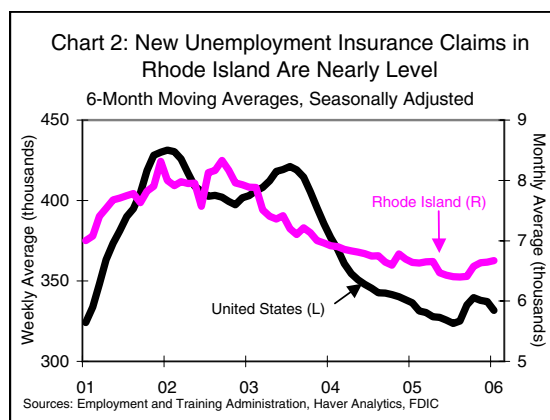
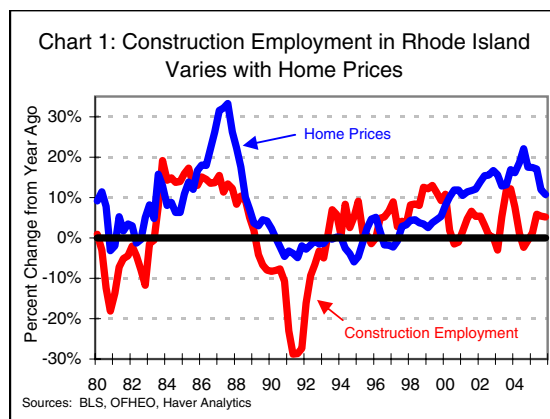
- The Rhode Island economy added 3,500 new jobs from fourth quarter 2004 through fourth quarter 2005, representing a gain of 0.7 percent. The construction sector led growth during the year at 6.1 percent followed by professional and business services at 3.6 percent. Although it accounts for just 4.5 percent of jobs in Rhode Island, the construction industry contributed over one-third of new job growth.
- Construction employment is highly variable over time and is significantly influenced by the behavior of housing prices (see Chart 1). This was especially the case in the 1980s and early 1990s, but somewhat less so now. Given this relationship, the recent slowing in the rate of home appreciation may portend some decrease in the rapid growth of construction employment.
- Construction growth was concentrated in specialty trade contracting (plumbing, painting, and electrical work), which accounts for about three-fifths of all construction jobs in Rhode Island.
- Manufacturing lost 4.0 percent of jobs over the year, while trade, transportation and utilities had a job loss of 0.4 percent.

Unemployment insurance claims show slow improvement in Rhode Island.

- Since reaching a peak monthly average over 8,300 both in late in 2001 and the summer of 2002, initial unemployment insurance claims have declined to very moderate levels. As of January 2006, the six-month seasonally adjusted monthly average stood at just under 6,700, (see Chart 2).
- This level of new claim activity remains well below Rhode Island's historical average, suggesting moderate gains in employment over the near term.

Rhode Island surpassed other New England states in attracting young adults.

- **Providence and Washington Counties** enjoyed growth in the 25 to 34 cohort of 2.1 percent and 7.2 percent,



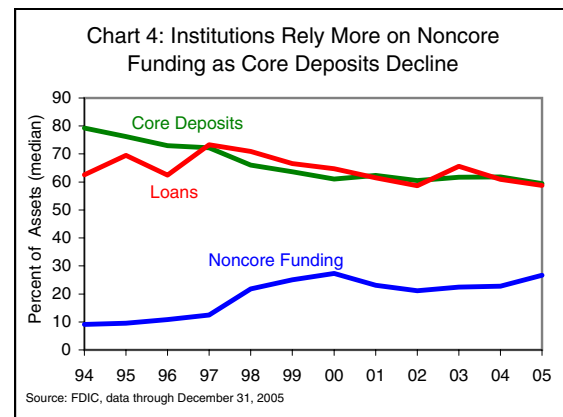
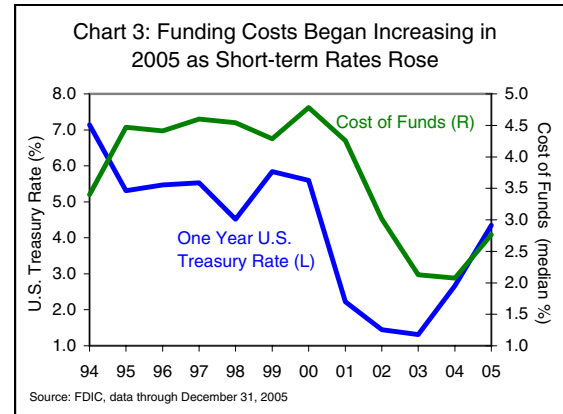
respectively, from 2000 to 2004, surpassing the U.S. average of 0.5 percent (see Map 1). This age group can set the pace for economic development, as they join the workforce and form households. Washington County is by far the least densely populated of Rhode Island's five counties and has been able to attract young adults due to somewhat lower real estate prices.

- Providence County has benefited from the high cost of residential real estate in neighboring Massachusetts. There has been significant anecdotal evidence of increasing numbers of commuters from the Providence area to Boston's suburban office centers, and even into downtown Boston.

Rising short-term interest rates, a flatter yield curve, and a decline in core deposits are pressuring net interest margins (NIMs).

- NIMs have been on a general decline and have experienced pressure since the mid 1990s. NIMs started to show signs of improvements early in 2004 but the improvement reversed mid-year and NIMs have exhibited pressure since. The NIM declined one basis point during 2005 to 3.29 percent.
- In 2004, the Federal Reserve began a series of increases in short-term interest rates that have continued into the early part of 2006. These increases led to a flattening yield curve as the difference in short-term rates and long-term rates narrowed.¹
- A flattening yield curve often causes NIM compression as banks tend to borrow short-term and lend longer-term. Rhode Island's insured institutions saw NIMs decline as funding costs began to increase late in 2005 in response to higher short-term interest rates (see Chart 3).
- With fewer low cost core deposits to fund loan growth, banks are increasingly turning to more expensive noncore funding sources such as borrowings. As of December 31, 2005, Rhode Island's insured institutions posted a noncore funding to asset ratio of 26.68 percent, which is the sixth highest in the nation (see Chart 4). Noncore funding typically is more sensitive to changes in market interest rates than core funding, and as a result, could further pressure NIMs should rates continue to rise.
- Going forward, the impact on NIMs from increased funding costs in Rhode Island's insured institutions may be more pronounced due to the large concentrations of long-term mortgage related assets, which typically reprice less frequently than deposits. Rhode Island's insured

institutions hold about 43 percent of total assets in long-term assets.



¹FYI: An Update on Emerging Issues in Banking. What the Yield Curve Does (and Doesn't) Tell Us. February 22, 2006. <http://www.fdic.gov/bank/analytical/fyi/2006/022206fyi.html>

Rhode Island at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.6%	0.7%	0.7%	0.9%	1.0%
Manufacturing (11%)	-4.4%	-3.9%	-1.7%	-2.9%	-5.8%
Other (non-manufacturing) Goods-Producing (5%)	5.1%	5.6%	-0.1%	1.2%	6.7%
Private Service-Producing (71%)	1.2%	1.4%	1.6%	1.9%	2.1%
Government (13%)	-0.1%	-1.0%	-1.1%	-1.0%	0.2%
Unemployment Rate (% of labor force)	5.1	5.1	5.1	5.2	5.4
Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	5.1%	6.4%	5.8%	3.8%
Single-Family Home Permits	-0.9%	-6.1%	-26.0%	-2.6%	-9.2%
Multifamily Building Permits	449.2%	55.4%	-51.4%	10.8%	26.3%
Existing Home Sales	-2.6%	6.7%	7.2%	13.6%	-1.2%
Home Price Index	10.7%	11.9%	17.5%	18.6%	14.6%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	6.82	5.15	3.38	3.74	4.19

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	13	14	15	15	15
Total Assets (in millions)	29,756	32,206	246,069	246,069	216,482
New Institutions (# < 3 years)	2	2	1	1	3
Subchapter S Institutions	2	2	2	2	2
Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.56	0.55	0.57	0.57	0.62
ALLL/Total Loans (median %)	0.85	0.92	1.18	1.18	1.25
ALLL/Noncurrent Loans (median multiple)	3.50	3.51	3.54	3.54	2.56
Net Loan Losses / Total Loans (median %)	0.00	0.01	0.03	0.01	0.03
Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	10.38	11.58	10.63	10.63	12.35
Return on Assets (median %)	0.68	0.42	0.96	0.80	1.02
Pretax Return on Assets (median %)	1.08	0.63	1.55	1.23	1.47
Net Interest Margin (median %)	3.21	3.33	3.60	3.30	3.41
Yield on Earning Assets (median %)	5.66	5.55	5.41	5.19	5.48
Cost of Funding Earning Assets (median %)	2.87	2.24	1.95	1.90	1.85
Provisions to Avg. Assets (median %)	0.05	0.05	0.05	0.07	0.11
Noninterest Income to Avg. Assets (median %)	1.12	0.95	1.13	1.23	1.41
Overhead to Avg. Assets (median %)	3.10	3.18	3.25	3.50	3.43
Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	58.7	63.5	60.9	60.9	65.6
Noncore Funding to Assets (median %)	26.7	25.8	22.8	22.8	22.5
Long-term Assets to Assets (median %, call filers)	31.6	31.5	32.1	32.1	33.1
Brokered Deposits (number of institutions)	2	2	3	3	3
Brokered Deposits to Assets (median % for those above)	6.2	5.5	6.5	6.5	0.4
Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	39.7	24.7	27.9	27.9	30.4
Commercial Real Estate	80.7	103.0	88.1	88.1	83.7
<i>Construction & Development</i>	11.1	7.2	7.4	7.4	7.2
<i>Multifamily Residential Real Estate</i>	3.0	3.3	0.3	0.3	0.2
<i>Nonresidential Real Estate</i>	39.5	50.5	38.0	38.0	53.0
Residential Real Estate	175.6	307.2	360.6	360.6	309.2
Consumer	3.0	2.8	4.2	4.2	4.5
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Providence-New Bedford-Fall River, RI-MA	40	29,179	< \$250 million	6 (46.2%)
			\$250 million to \$1 billion	2 (15.4%)
			\$1 billion to \$10 billion	4 (30.8%)
			> \$10 billion	1 (7.7%)